

AR81



# CITADEL

Group of Funds

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

## Citadel Multi-Sector Income Fund

ANNUAL REPORT 2005



## Citadel Multi-Sector Income Fund

Citadel Multi-Sector Income Fund (the "Fund" or "Citadel Multi-Sector") is a closed-end investment trust which became listed on the Toronto Stock Exchange upon closing of its initial public offering on February 14, 2003. The Fund has a termination date of December 31, 2008, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2005, the Fund paid monthly cash distributions of \$0.0833 per unit for a total of \$0.9996 per unit (2004 - \$0.9996 per unit). For tax purposes, the 2005 distributions were allocated as 50.1% other taxable income, 3.8% dividend income, 5.4% capital gains and 40.7% return of capital.

### INVESTMENT HIGHLIGHTS:

	2005	2004	2003
Net Asset Value per Unit <sup>(1)</sup>	\$ 12.35	\$ 11.81	\$ 10.51
Market Price per Unit <sup>(1)</sup>	\$ 11.26	\$ 11.20	\$ 10.09
Trading Premium (Discount)	(8.8%)	(5.2%)	(4.0%)
Cash Distributions per Unit	\$ 0.9996	\$ 0.9996	\$ 0.7497
Trailing Yield <sup>(2)</sup>	8.9%	8.9%	n/a
Market Capitalization (\$ millions)	\$ 305.8	\$ 314.8	\$ 281.9

<sup>(1)</sup> Net asset value and market price per unit are based on year end values.

<sup>(2)</sup> Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

<b>Stock Symbol</b>	CMS.un (TSX)
2005 High/Low	\$11.99 - \$9.05
2005 Cash Distributions	\$0.9996 per unit
2005 Taxable % <sup>(3)</sup>	55.3%
2005 Total Return <sup>(4)</sup>	10.0%
2005 Management Expense Ratio	1.7%

<sup>(3)</sup> Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

<sup>(4)</sup> Total return is based upon the Fund's change in market price plus the reinvestment of cash distributions in additional units of the Fund.

# Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Citadel Multi-Sector Income Fund (the "Fund" or "Citadel Multi-Sector").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at [www.citadelfunds.com](http://www.citadelfunds.com) to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

## INVESTMENT OBJECTIVES AND STRATEGIES

Citadel Multi-Sector's investment objectives are to maximize total returns by seeking to provide unitholders with stable, tax effective distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of income producing investments consisting of Canadian income funds and Canadian high yielding investment grade debt.

## RISK

There are a number of risks associated with an investment in Citadel Multi-Sector. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks. During 2005, the Fund increased its weighting in the oil & gas royalty trusts as commodity prices rose and reduced its weighting in the interest rate sensitive power generation and fixed income investments as interest rates climbed throughout the year. Also the Fund disposed of holdings of a number of issuers that had become overvalued in the opinion of the Fund's investment manager.

## RESULTS OF OPERATIONS

Citadel Multi-Sector grew its net asset value primarily on the strength of its oil and gas royalty trusts positions despite periods of weakness during the second and fourth quarters of 2005. The Fund's net asset value closed 2005 at \$335.3 million up from \$332.0 million at the end of 2004. On a per unit basis, Citadel Multi-Sector's net asset value climbed to \$12.35 per unit at December 31, 2005 from \$11.81 per unit at the end of 2004 as portfolio valuations increased and unit repurchases at discounts to net asset value helped boost the Fund's net asset value per unit.

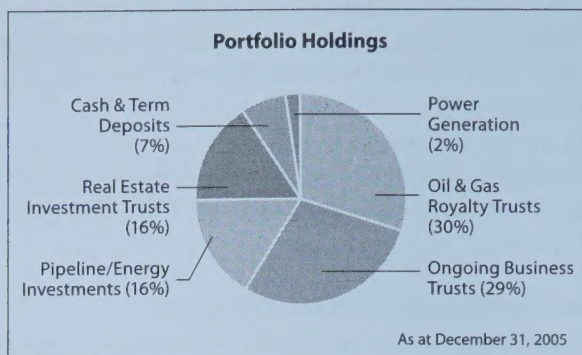
During 2005, the Fund's market price also increased slightly year over year, closing 2005 at \$11.26 per unit up from \$11.20 per unit at year end 2004. Citadel Multi-Sector's unit price appreciation plus monthly cash distributions produced a 10.0% total return for 2005, while the Fund generated a 14.4% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0% in 2005.

Total revenue for 2005 increased to \$30.5 million in 2005, up from \$27.9 million in the prior year as increased distribution income from the oil and gas trusts contributed to higher revenue in 2005. Administrative and investment manager fees, which are paid by issuing units of the Fund, increased to \$3.9 million in 2005 from \$3.6 million in the prior year due to higher net asset values in the year. Similarly, trailer fees, which are calculated in reference to the net asset value of the Fund, also increased to \$1.3 million from \$1.2 million in the prior year. General and administration costs, including other expenses, totaled \$0.5 million in both 2005 and 2004. After total expenses for 2005 of \$5.8 million (2004 - \$5.3 million) the Fund generated net investment income of \$24.7 million or \$0.89 per unit in 2004 compared to \$22.5 million or \$0.81 per unit for 2004.



During 2005, Citadel Multi-Sector paid total cash distributions of \$27.5 million or \$0.9996 per unit compared to \$28.0 million or \$0.9996 per unit in 2004.

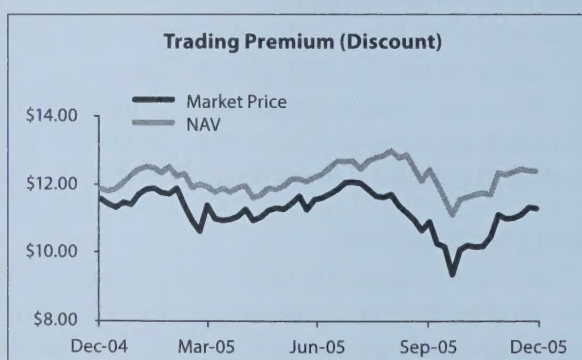
During the year, modest changes were made to the portfolio with dispositions generating a net realized loss of \$0.9 million for the year compared to net realized gains of \$11.3 million in 2004. Offsetting this loss, unrealized gains totaled \$17.9 million for 2005 compared to \$30.5 million in the prior year. Taking into account these realized losses and unrealized gains, the Fund posted total results of operations of \$41.6 million or \$1.51 per unit in 2005 compared to \$64.3 million or \$2.30 per unit for 2004.



During 2005, the Fund increased its exposure to the oil and gas trusts while reducing or eliminating its investments in the more interest rate sensitive power generation and fixed income investments. The Fund's portfolio mix was not optimal in 2005. As compared to the sector weightings of the S&P/TSX Income Trust Index, the Fund was underweight the strong performing energy sector. The Fund's investment manager increased the Fund's exposure to the energy sector in 2005 but not to the extent of the energy sector weighting in the Index. The investment manager also chose to underweight power generation investments in order to mitigate the negative effects of an increasing interest rate environment. As a result of a combination of the Fund's cash position, its underweight position in the energy sector relative to the Index and its position in a number of underperforming business trusts, the Fund's performance trailed the Index.

#### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2005, Citadel Multi-Sector's unit price traded at an average discount to net asset value of 8.1% compared to an average discount to net asset value of 3.7% for 2004. As a result, the Fund repurchased 1,370,423 units at an average cost of \$11.35 per unit in 2005 (2004 – 264,700 units at an average cost of \$10.03 per unit). Under its mandatory repurchase program, Citadel Multi-Sector is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.



#### RECENT DEVELOPMENTS

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and provide a positive outlook for the income trust sector. Citadel Multi-Sector expects to maintain its monthly distribution rate of \$0.0833 per unit for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions.

#### FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.



## RELATED PARTY TRANSACTIONS

Citadel Multi-Sector Management Inc. is the administrator of Citadel Multi-Sector, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 3 years. This information is derived from the Fund's audited annual financial statements.

### Net Asset Value per Unit

	2005	2004	2003 <sup>(1)</sup>
NAV, beginning of year	\$ 11.81	\$ 10.51	\$ 9.44
Increase (decrease) from operations:			
Total revenue	1.10	1.00	0.85
Total expenses	(0.21)	(0.19)	(0.14)
Realized gains (losses)	(0.03)	0.40	0.12
Unrealized gains (losses)	0.65	1.09	1.00
Total increase (decrease) from operations	1.51	2.30	1.83
Distributions:			
From net investment income	1.00	0.93	0.75
From capital gains	—	0.07	—
Total annual distributions	1.00	1.00	0.75
NAV, end of year	\$ 12.35	\$ 11.81	\$ 10.51

<sup>(1)</sup> The Fund commenced operations on February 14, 2003.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

### Ratios and Supplemental Data

	2005	2004	2003
Net assets (\$000's)	\$ 335,316	\$ 331,981	\$ 293,737
Number of units outstanding	27,158,347	28,104,458	27,935,523
Management expense ratio	1.74%	1.76%	1.66%
Portfolio turnover ratio	11.39%	22.32%	26.77%
Trading expense ratio	0.06%	0.08%	0.16%
Closing market price	\$ 11.26	\$ 11.20	\$ 10.09

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

#### MANAGEMENT FEES

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

#### PAST PERFORMANCE

Citadel Multi-Sector's performance numbers from inception in February 2003 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The Fund's historical performance does not necessarily indicate how it will perform in the future.



#### ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Citadel Multi-Sector based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index.

	1 Year	Since inception
Citadel Multi-Sector (market price)	10.0%	14.1%
Citadel Multi-Sector (net asset value)	14.4%	20.2%
S&P/TSX Capped Income Trust Index	31.0%	32.8%

#### SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups:

	2005	2004
Oil & Gas Royalty Trusts	30.0%	22.7%
Ongoing Business Trusts	28.7%	37.2%
Pipeline / Energy Investments	16.4%	15.2%
Real Estate Investment Trusts	15.4%	14.5%
Power Generation Investments	2.1%	4.2%
Fixed Income Investments	—	0.9%
Citadel Multi-Sector units (repurchased for cancellation)	0.1%	—
Cash and Term Deposits	7.3%	5.3%
Total Investments	100.0%	100.0%



The top 25 holdings as at December 31, 2005 based on market values:

Acclaim Energy Trust	4.8%
ARC Energy Trust	4.2%
TransForce Income Fund	3.6%
Trinidad Energy Services Income Fund	3.5%
Paramount Energy Trust	3.5%
CCS Income Trust	3.3%
Bonavista Energy Trust	3.1%
Calloway Reit	3.0%
Primaris Retail Reit	3.0%
Superior Plus Income Fund	2.7%
Inter Pipeline Fund	2.7%
Vermilion Energy Trust	2.7%
Dundee Reit	2.4%

IPC U.S. Income Commercial Reit	2.3%
Enerplus Resources Fund	2.3%
Harvest Energy Trust	2.2%
Keyera Facilities Income Fund	2.2%
Cineplex Galaxy Income Fund	2.2%
Baytex Energy Trust	2.1%
Countryside Power Income Fund	2.1%
Viking Energy Royalty Trust	2.0%
AltaGas Income Trust	2.0%
Richards Packaging Income Fund	1.9%
Prizm Canadian Income Fund	1.9%
Keystone North America Inc.	1.9%
% of Total Portfolio	67.4%

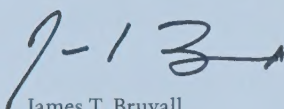
## Management's Responsibility Statement

The financial statements of Citadel Multi-Sector Income Fund have been prepared by Citadel Multi-Sector Management Inc. ("CMSI") and approved by the Board of Directors of CMSI. CMSI is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

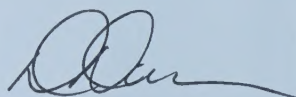
CMSI maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CMSI is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CMSI and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel Multi-Sector Management Inc.  
April 6, 2006



Darren K. Duncan  
Chief Financial Officer  
Citadel Multi-Sector Management Inc.

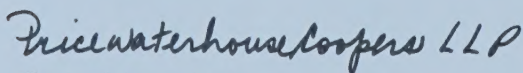
## Auditors' Report to Unitholders

To the Unitholders of Citadel Multi-Sector Income Fund

We have audited the statements of net assets and investments of Citadel Multi-Sector Income Fund as at December 31, 2005 and 2004, and the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2005 and 2004 and the results of its operations and the changes in its net assets for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 10, 2006

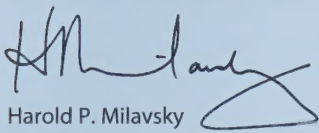


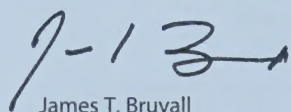
## Statement of Net Assets

As at December 31,	2005	2004
<b>Assets</b>		
Investments, at market	\$ 310,854,240	\$ 314,616,422
Cash and term deposits	24,596,204	17,486,434
Revenue receivable	2,496,092	2,424,247
Accounts receivable	136,324	95,658
Prepaid expenses	7,971	8,033
	<u>338,090,831</u>	<u>334,630,794</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	325,899	309,149
Payable for investments purchased	186,383	—
Distributions payable	2,262,290	2,341,101
	<u>2,774,572</u>	<u>2,650,250</u>
Net Assets representing Unitholders' Equity	<u>\$ 335,316,259</u>	<u>\$ 331,980,544</u>
Units outstanding (note 3)	<u>27,158,347</u>	<u>28,104,458</u>
Net asset value per unit	<u>\$ 12.35</u>	<u>\$ 11.81</u>

see accompanying notes

Signed on behalf of the Board,

  
 Harold P. Milavsky  
 Chairman of the Board

  
 James T. Bruvall  
 Director and Chief Executive Officer

## Statement of Operations

Years Ended December 31,	2005	2004
<b>Revenue</b>		
Distribution income	\$ 29,986,799	\$ 25,821,852
Interest income	515,472	2,056,328
	<b>30,502,271</b>	<b>27,878,180</b>
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	3,930,142	3,557,139
Trailer fee (note 5)	1,347,574	1,204,173
General and administration costs	316,585	302,150
Directors' fees	83,140	79,920
Reporting costs	58,114	118,823
Custodial fees	30,453	40,068
Audit fees	23,750	21,813
Trustee fees	20,487	5,917
Legal fees	7,200	18,282
	<b>5,817,445</b>	<b>5,348,285</b>
<b>Net investment income</b>	<b>24,684,826</b>	<b>22,529,895</b>
<b>Net realized gain (loss) on sale of investments</b> (note 6)	<b>(932,476)</b>	<b>11,283,881</b>
<b>Net change in unrealized gain on investments</b>	<b>17,868,697</b>	<b>30,505,179</b>
<b>Total results of operations</b>	<b>\$ 41,621,047</b>	<b>\$ 64,318,955</b>
<b>Results of operations per unit<sup>(1)</sup></b>		
Net investment income	\$ 0.89	\$ 0.81
Net realized gain (loss) on sale of investments	(0.03)	0.40
Net change in unrealized gain on investments	0.65	1.09
	<b>\$ 1.51</b>	<b>\$ 2.30</b>

<sup>(1)</sup> Based on the weighted average number of units outstanding.

see accompanying notes

## Statement of Changes in Net Assets

Years ended December 31,	2005	2004
Net Assets – beginning of year	\$ 331,980,544	\$ 293,736,810
Operations:		
Net investment income	24,684,826	22,529,895
Net realized gain (loss) on sale of investments	(932,476)	11,283,881
Net change in unrealized gain on investments	17,868,697	30,505,179
	<b>41,621,047</b>	<b>64,318,955</b>
Unitholder Transactions:		
Issuance of trust units, net	4,819,549	4,549,237
Repurchase of trust units	(15,556,726)	(2,654,133)
	<b>(10,737,177)</b>	<b>1,895,104</b>
Distributions to Unitholders: (note 7)		
From net investment income	(27,548,155)	(25,916,811)
From capital gains	–	(2,053,514)
	<b>(27,548,155)</b>	<b>(27,970,325)</b>
Net Assets – end of year	<b>\$ 335,316,259</b>	<b>\$ 331,980,544</b>
Distributions per unit	<b>\$ 0.9996</b>	<b>\$ 0.9996</b>

see accompanying notes



# Statement of Investments

	December 31, 2005				December 31, 2004			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<b>Oil &amp; Gas Royalty Trusts</b>								
Acclaim Energy Trust	842,503	\$ 9,246,729	\$ 15,965,432		850,703	\$ 9,336,727	\$ 12,250,123	
ARC Energy Trust	530,000	6,335,573	14,039,700		625,866	7,481,547	11,203,001	
Baytex Energy Trust	395,000	3,990,704	6,991,500		510,000	5,152,554	6,512,700	
Bonavista Energy Trust	270,000	5,373,240	10,287,000		270,000	5,373,240	7,317,000	
Enerplus Resources Fund	135,533	3,840,965	7,570,873		135,533	3,840,964	5,909,239	
Esprit Energy Trust	400,000	4,866,500	5,384,000		—	—	—	
Harvest Energy Trust	200,000	3,745,671	7,438,000		250,000	4,670,500	5,737,500	
Paramount Energy Trust	535,000	6,969,946	11,860,950		815,000	10,617,769	12,991,100	
Shiningbank Energy Income Fund	187,384	2,815,333	5,462,244		287,984	4,326,788	6,188,776	
Vermilion Energy Trust	300,000	4,230,000	8,922,000		300,000	4,230,000	6,036,000	
Viking Energy Royalty Trust	720,000	5,185,373	6,624,000		188,272	1,317,584	1,270,836	
		56,600,034	100,545,699	30.0%		56,347,673	75,416,275	22.7%
<b>Ongoing Business Trusts</b>								
ACS Media Income Fund	414,000	4,200,493	3,705,300		414,000	4,200,493	3,891,600	
Advanced Fiber Technologies Income Fund	—	—	—		647,000	4,710,029	3,836,710	
Arctic Glacier Income Fund	456,788	4,216,147	4,933,310		456,788	4,216,147	5,481,456	
Atlas Cold Storage Income Trust	—	—	—		274,070	3,024,738	1,534,792	
The Brick Group Income Fund	450,000	4,541,400	4,189,500		450,000	4,500,000	6,282,000	
CML Healthcare Income Fund	—	—	—		500,000	5,395,740	6,675,000	
Chemtrade Logistics Income Fund	494,500	7,403,268	5,286,205		494,500	7,403,268	10,038,350	
Cineplex Galaxy Income Fund	500,800	5,113,097	7,311,680		500,800	5,113,097	7,361,760	
Clearwater Seafoods Income Fund	—	—	—		310,218	3,289,913	2,723,714	
Custom Direct Income Fund	520,000	5,203,588	5,122,000		520,000	5,203,588	5,980,000	
Entertainment One Income Fund	600,000	6,007,600	3,000,000		600,000	6,007,600	7,128,000	
Golf Town Income Fund	550,000	5,605,480	5,665,000		266,200	2,662,000	3,087,920	
Grandby Industries Income Fund	695,000	6,914,775	4,065,750		595,000	5,950,000	6,426,000	
Keystone North America Inc.	700,000	6,932,396	6,265,000		—	—	—	
Prizm Canadian Income Fund	663,100	6,963,640	6,299,450		663,100	6,963,640	9,800,618	
Richards Packaging Income Fund	716,100	7,199,142	6,409,095		276,000	2,760,000	3,008,400	
Rogers Sugar Income Fund	1,485,000	6,427,496	5,494,500		1,485,000	6,427,496	6,682,500	
SFK Pulp Fund	1,159,600	7,907,238	5,218,200		940,000	8,986,191	6,815,000	
Specialty Foods Group Income Fund	—	—	—		700,000	6,554,800	3,150,000	
Spinrite Income Fund	227,500	2,376,040	1,419,600		—	—	—	
Sun Gro Horticulture Income Fund	650,000	5,629,246	4,387,500		650,000	5,629,246	5,297,500	
TransForce Income Fund	699,771	5,522,153	11,938,076		900,000	6,828,473	13,707,000	
Yellow Pages Income Fund	350,000	4,483,500	5,705,000		350,000	4,483,500	4,721,500	
		102,646,699	96,415,166	28.7%		110,309,959	123,629,820	37.2%
<b>Pipeline/Energy Investments</b>								
AltaGas Income Trust	235,700	4,695,508	6,587,815		235,700	4,796,495	5,456,456	
CCS Income Trust	300,000	3,600,000	11,100,000		250,000	6,000,000	10,982,500	
Heating Oil Partners Income Fund	—	—	—		459,000	5,485,050	3,281,850	
Inter Pipeline Fund	900,000	5,976,154	9,045,000		900,000	5,976,154	8,244,000	
Keyera Facilities Income Fund	340,000	3,655,000	7,395,000		421,100	4,526,825	6,059,629	
Superior Plus Income Fund	390,000	7,934,055	9,165,000		190,000	3,937,656	5,703,800	
Trinidad Energy Services Income Fund	750,000	2,700,000	11,865,000		1,030,000	3,708,000	10,753,200	
		28,560,717	55,157,815	16.4%		34,430,180	50,481,435	15.2%
<b>Real Estate Investment Trusts</b>								
Calloway Reit	429,000	4,504,500	10,184,460		429,000	4,504,500	8,043,750	
Dundee Reit	315,000	6,388,200	8,095,500		315,000	6,388,200	8,064,000	
InnVest Reit	485,000	4,559,717	6,081,900		485,000	4,559,717	5,771,500	
IPC U.S. Income Commercial Reit	686,200	6,939,961	7,795,232		686,200	6,939,961	7,273,720	
Primaris Retail Reit	619,400	6,252,815	10,120,996		619,400	6,252,815	8,287,572	
Retirement Residences Reit	475,000	4,638,845	4,156,250		475,000	4,638,845	4,892,500	
TGS North American Reit	650,000	5,882,500	5,154,500		650,000	5,882,500	5,785,000	
		39,166,538	51,588,838	15.4%		39,166,538	48,118,042	14.5%

(continued on following page)

(continued from previous page)

<b>Power Generation Investments</b>								
Countryside Power Income Fund	788,200	7,719,023	6,959,806		788,200	7,719,022	7,290,850	
TransAlta Power L.P.	—	—	—		650,000	5,736,900	6,656,000	
		7,719,023	6,959,806	2.1%		13,455,922	13,946,850	4.2%
<b>Fixed Income Investment</b>								
Pembina Pipeline Income Fund 7.35%	—	—	—		28,000	2,800,000	3,024,000	
		—	—	0.0%		2,800,000	3,024,000	0.9%
Citadel Multi-Sector - repurchased units to be cancelled	16,600	186,383	186,916	0.1%	—	—	—	
<b>Investments</b>		234,879,394	310,854,240	92.7%		256,510,272	314,616,422	94.7%
<b>Cash and Term Deposits</b>		24,596,204	24,596,204	7.3%		17,486,434	17,486,434	5.3%
<b>Total</b>		\$ 259,475,598	\$ 335,450,444	100.0%		\$ 273,996,706	\$ 332,102,856	100.0%

All portfolio holdings are trust units, except the following: Keystone North America Inc. – income participating security; Inter Pipeline Fund – Class A LP unit; Pembina Pipeline Income Fund – convertible debenture series B.

## Notes to the Financial Statements

December 31, 2005 and 2004

### 1. STRUCTURE OF THE FUND

Citadel Multi-Sector Income Fund (the “Fund” or “Citadel Multi-Sector”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of December 12, 2002 and amended February 14, 2003. The Fund commenced operations upon completion of its initial public offering on February 14, 2003. The term of the Fund continues until December 31, 2008 in accordance with the provisions of the Fund’s Declaration of Trust.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

#### (a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

#### (d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recognized on the trade date.

#### (e) Financial instruments

The fair values of the Fund’s financial instruments which are comprised of cash and term deposits, accounts receivable, revenue receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.



### 3. UNITHOLDERS' CONTRIBUTION

#### Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	28,104,458	\$ 265,917,161	27,935,523	\$ 264,022,057
Issued for services (note 4)	333,612	3,735,540	326,316	3,386,913
Issued under DRIP	90,700	1,084,009	107,319	1,162,324
Repurchase of trust units	(1,370,423)	(15,556,726)	(264,700)	(2,654,133)
Trust units – end of year	27,158,347	\$ 255,179,984	28,104,458	\$ 265,917,161

The weighted average number of units outstanding in 2005 was 27,632,523 (2004 - 27,968,001 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2005, Citadel Multi-Sector repurchased 1,370,423 trust units under this program at an average cost of \$11.35 per unit (2004 - 264,700 trust units at an average cost of \$10.03 per unit).

Unitholders of Citadel Multi-Sector can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the 5 day weighted average market price of the Fund's units. In 2005, 90,700 units (2004 - 107,319 units) were issued under the DRIP.

### 4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Multi-Sector Management Inc. ("CMSI") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2005, the Fund issued 328,292 trust units and recorded an expense of \$3,930,142 in respect of the administrative and investment management fees during the year (2004 - 320,220 trust units for a total expense of \$3,557,139). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2005, included in accounts receivable were amounts owed from CMSI of \$136,324 (2004 - \$95,658).

Directors of CMSI received a total of 5,320 units in 2005 (2004 - 6,096) as payment for their annual retainers.

### 5. TRAILER FEE

Citadel Multi-Sector pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2005, the Fund recorded an expense of \$1,347,574 (2004 - \$1,204,173) relating to the trailer fee.

### 6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2005	2004
Net proceeds from the sale of securities	\$ 58,840,313	\$ 68,235,216
Less cost of securities sold:		
Investments at cost – beginning of year	256,510,272	217,449,980
Investments purchased during year	38,141,911	96,011,627
Investments at cost – end of year	(234,879,394)	(256,510,272)
Cost of investments disposed of during year	59,772,789	56,951,335
Net realized gain (loss) on sale of investments	\$ (932,476)	\$ 11,283,881

## 7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.0833 per unit based upon cash distributions received by the Fund less estimated expenses. In 2004, the Fund also distributed a portion of its realized capital gains in order to supplement distributions.

	2005	2004
Net investment income for the year	\$ 24,684,826	\$ 22,529,895
Add fees paid by issuance of units	3,735,540	3,386,916
Capital distributed (cash flow retained)	(872,211)	2,053,514
Cash distributions	\$ 27,548,155	\$ 27,970,325
Cash distributions per unit	\$ 0.9996	\$ 0.9996

## 8. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$207,457 in 2005 (2004 – \$238,965) in relation to the purchase and sale of investments.

## 9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.



# Corporate Information

## Administrators

Citadel Diversified Management Ltd.  
Citadel S1 Management Ltd.  
Citadel TEF Management Ltd.  
Citadel CPRT Management Ltd.  
MYDAS Management Inc.  
Citadel Multi-Sector Management Inc.  
Citadel Series Management Ltd.  
Citadel IG Management Ltd.  
Equity Lift Management Ltd.  
N.A. Energy Management Inc.  
Stable Yield Management Inc.  
Sustainable PE Management Inc.  
Equal Weight Management Ltd.  
Suite 3500, 350 - 7th Avenue S.W.  
Calgary, Alberta T2P 3N9  
Telephone: (403) 261-9674  
Toll Free: 1 877 261-9674  
Fax: (403) 261-8670  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

## Directors and Officers

Harold P. Milavsky - Chairman of the Board  
Paul L. Waitzer - Director  
Doug D. Baldwin - Director  
Kent J. MacIntyre - Director  
James T. Bruvall - Director and Chief Executive Officer  
Darren K. Duncan - Chief Financial Officer

## Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,  
CMS.un, SRC.un, CIF.un and CSR.un)  
Bloom Investment Counsel, Inc.  
Suite 1710, 150 York Street  
Toronto, Ontario M5H 3S5

## Investment Manager

(EPF.un and SPU.un)  
Galileo Equity Management Inc.  
161 Bay Street, Suite 4730  
Toronto, Ontario M5J 2S1

## Rebalancing Advisor

(IEP.un and EQW.un)  
Shaunessy Investment Counsel  
Suite 504, 933-17th Avenue S.W.  
Calgary, Alberta T2T 5R6

## Trustee

Computershare Trust Company of Canada  
Sixth Floor  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

## Custodian

CIBC Mellon Global Securities Services Company  
320 Bay Street, 6th Floor  
Toronto, Ontario M5H 4A6

## Legal Counsel

Stikeman Elliott LLP  
4300 Bankers Hall West  
888 - 3rd Street S.W.  
Calgary, Alberta T2P 5C5

## Auditors

PricewaterhouseCoopers LLP  
3100, 111 - 5th Avenue S.W.  
Calgary, Alberta T2P 5L3

## Stock Exchange Listings

The Toronto Stock Exchange  
Citadel Diversified Investment Trust units: **CTD.un**  
Citadel S-1 Income Trust Fund units: **SDL.un**  
Citadel HYTES Fund units: **CHF.un**  
Citadel SMaRT Fund units: **CRT.un**  
MYDAS Fund units: **MYF.un**  
Citadel Multi-Sector Income Fund units: **CMS.un**  
Series S-1 Income Fund units: **SRC.un**  
Citadel Income & Growth Fund units: **CIF.un**  
Income & Equity Index Participation Fund units: **IEP.un**  
Energy Plus Income Trust units: **EPF.un**  
Citadel Stable S-1 Income Fund units: **CSR.un**  
Sustainable Production Energy Trust units: **SPU.un**  
Equal Weight Plus Fund units: **EQW.un**





Suite 3500, 350 - 7th Avenue S.W.

Calgary, Alberta T2P 3N9

Tel: (877) 261-9674 Fax: (403) 261-8670

Website: [www.citadelfunds.com](http://www.citadelfunds.com)